Communication to College Principals 28 May 2020

Dear Principal,

I am writing to follow up recent conversations in a variety of forums. We are all working through the practical implications of the very exceptional circumstances we face as a result of the COVID-19 emergency. Our early actions were designed to provide stability and greater flexibility in the use of public funds. We also reprioritised our routine reporting requirements, so that you could focus on responding effectively to the needs of students and staff. As we gain a better understanding of the short and medium term implications, we can plan together for the future.

Thank you for the engagement we’ve had over the last few weeks, in terms of meetings, papers, and technical discussions. This has been hugely heartening. We will find solutions together that will work for learners and colleges, and, importantly, that will be fundamental to Scotland’s economic recovery. We will not always have a quick or simple answer to the questions you raise, but, where that is the case, we will aim to explain why and how issues are being taken forward. You have also told us you would like us to share more internal thinking, planning and policy development. We will reflect on how we can do this better. The suggestion of partnership working over three phases - the immediate; the next academic year; and a period of wider recovery – is a helpful way of framing things.

Let me bring greater clarity to two important aspects of our credit guidance in 2019-20 that you have been engaging with us about – the one plus limit; and the need to report activity.

For the last few years we have set a 2.5% limit for one plus activity, where students undertake more than one full-time course/programme over the Academic Year. For 2019-20 we will remove this limit to support students to benefit from additional learning during this lockdown period. The audit guidance will no longer include a one plus limit, to reflect this change in policy. Colleges have also asked whether credits are claimable for timetabled guidance on Higher Education programmes. We can confirm that this is permitted and that our credit guidance will be updated to reflect this position.

We have made a commitment that we will not recover funding if colleges fall below core activity targets as a result of the pandemic in 2019-20 and 2020-21. That commitment stands. However, we have asked colleges to continue to report all activity to us for this 2019-20 year because we still need to demonstrate
accountability for public funds, for internal, external and European Social Fund audit purposes, and for national reporting. We know from returns in previous years that students recruited between August and March of the Academic Year account for around 99% of the final credit claim (including ESF) and in every year prior to 2019-20 colleges have exceeded their overall activity targets. We believe colleges are likely to have already recruited enough students to meet the core and ESF targets for 2019-20, but we do still need colleges to report this activity.

We would like to work with you to better understand the estimated number of credits that will be claimed by each college for AY 2019-20. This will help us to provide early notice of any possible redistribution of ESF funding for AY 2019-20 and to consider the financial impact of these decisions. We are, therefore, asking that you provide an estimate of the final credit claim for AY 2019-20 on that basis. A short email response to Kenny Wilson by 12 June will suffice. Our priority at this point is to estimate the likely financial impact of the policy changes I have outlined here, and to have certainty over AY 2019-20 credit count and funding.

You have asked for further relaxations of our requirements for AY 2020-21, for example, the early withdrawal date (i.e. 25% rule) and the credit claim for work placements. We would like to consider these issues in the round, particularly as we work with a range of partners on economic recovery planning, including re-skilling and upskilling, and the potential higher demand for college places in an uncertain job market.

These broader issues will also be important to the assumptions that colleges might use in preparing budgets for AY 2020-21. I am grateful to Hugh Hall and the group of Finance Directors who have been working with us to consider assumptions for budget planning in AY 2020-21. It was good to receive the assumptions suggested by the group on 21 May. We agree that this is a reasonable set of assumptions to use for the budget modelling due to be returned in the middle of June. As ever, your commentary will be as important as the figures you submit, as this will help us better understand the particular issues facing your institution, and will support follow-up engagement. We aim to share this co-produced Call for Information at the end of this week. We would like to extend the forecast to AY 2022-23, which brings consistency and greater cohesion to our planning information for colleges and universities. You may also want to consider further scenario planning, working through a range of assumptions and options that help you and us understand the trade-offs involved, and choices you could make, to reach an optimal position for your organisation and region.

Some of the clarity being sought to a broader range of questions is simply not possible at this time, but assumptions will become clearer as we work together, and with other partners, and with the Scottish Government. I have attached the current
list of issues submitted by colleges at Annex A with some initial responses. Other assumptions and mitigating options can be modelled over the coming weeks as we work through the funding and policy implications of possible changes at a sector-wide and individual institution level. Therefore, budget modelling for AY 2020-21 will continue to be an iterative process.

You will be acutely aware of the many taskforces, groups and commissions that have been established recently to make sense of the implications of COVID-19, in addition to many existing groups. These all matter, but I believe that we need a better vehicle to focus on the issues that matter most to SFC’s engagement with colleges.

When we met last week, I mentioned that we were considering three work streams, to cover a range of issues. On reflection, I have concluded that we should establish a short-life advisory group to bring urgency and focus to the issues that have primacy to our funding and regulatory role, and to provide a better way of streamlining our engagement, particularly in planning for AY 2020-21 and beyond.

We will share papers and early thinking with the advisory group and this will help us bring material into other forums, such as the full Principals’ group and relevant SFC decision-making committees or the Scottish Government, as appropriate. We will aim to get this up and running quickly. I will discuss the remit and membership of the advisory group with the Chair of the Principals’ Group over the coming days. It does mean we will rein back our involvement in a number of other existing groups related to outcomes and funding as we focus on the issues in hand.

I’d like to thank you again for your continuing commitment and efforts during these challenging times. We are committed to working closely and collaboratively with you to deliver for students, for communities and for the economy.

Karen Watt
SFC Chief Executive
Issues submitted by colleges to inform financial planning for 2020-21

1. The Minister’s letter of 30 April referred to an HE Financial Sustainability Action Plan. Can you confirm that SFC is preparing a College Financial Sustainability Plan? If so, what is the target date for completion? We would be happy to support the completion of the Plan.

_The Scottish Government is currently developing an action plan which it is aiming to publish in early June. The Scottish Government has asked us for further advice about the financial situation of colleges. This will be informed by recent financial returns (including the use of UK Government schemes, like the Coronavirus Job Retention Scheme) and further budget submissions in mid-June. We are considering options that might help the future financial sustainability of institutions, including additional capital funding if that becomes available from underspends within the Scottish Government. We will work closely with colleges as plans develop._

2. Will SFC take a tertiary wide view of student recruitment and financial viability and implement additional controls on fees only/EU students to prevent universities increasing their intake of home students at the expense of college recruitment?

_We will take a tertiary wide view. There is a complex interplay between college and university recruitment within Scotland (and between some colleges); and a complex set of interactions between universities across the UK. It is too early to take a view on what controls we may or may not take, although our early commitment that we will not penalise universities for not fully recruiting to targets in non-controlled subjects should play a part in mitigating competitive behaviours. We are involved in discussions with UK counterparts on the implications of university student controls, and the consideration of college targets, along with the design of labour market and skills interventions in response to COVID-19, are likely to be relevant to possible student intake._

3. Your confirmation that colleges will not be allowed to run out of cash is reassuring and is critical to enable colleges to keep business going. Without the guarantee, many colleges would be compelled to take immediate action to rationalise and make significant savings. Can you confirm how long that guarantee will hold for and outline what the longer term plan is likely to be to address the highlighted cash deficits in a growing number of colleges?

_The position with regard to cash is that incorporated colleges draw down SFC grant by submitting monthly statements of net cash required for the month ahead. Consequently, in the normal course of events, colleges should not be in a_
position of having insufficient cash to meet their commitments. This continues to be the case and, therefore, colleges should not run out of cash.

The monthly statements of net cash required are reviewed carefully by SFC to ensure that colleges are not getting into a position whereby there will be insufficient of their grant for the remainder of the year. This process also continues to operate and, therefore, we will engage with individual colleges directly where we have any concerns about future finances. Consequently, it remains the case that each college needs to consider its financial sustainability. We will work with the sector and individual colleges and regions to help manage cash flow. We will also keep the situation under review as planning assumptions, the Scottish Government’s action plan, and the impact of COVID-19 on students’ intentions and local economies become clearer.

4. When will SFC issue guidance to the sector on the preparation of 20/21 budgets and financial forecasts?

We have worked with college Finance Directors on the best common assumptions colleges should use for their 2020-21 budget planning returns, which are due by mid-June. We aim to issue our co-produced Call for Information shortly.

5. Notwithstanding the joint work that is underway to replace the 116,000 target, can you confirm that colleges will receive their full core funding in 2020/21 even if they don’t hit their target as a consequence of COVID-19?

As stated in our COVID-19 general Q and A, at this stage it is not possible to know with certainty what the impact of COVID-19 will be on college performance against Outcome Agreement measures (including student activity targets). However, we fully expect that there may be a shortfall against the student number credit target and we will take account of these exceptional circumstances. We will not recover funds for shortfalls against core outcome agreement targets where these are related to COVID 19 for AY 2019-20 and AY 2020-21. Any decisions will be taken in full consultation with the institution.

6. In accordance with the Financial Memorandum, Colleges must manage their activities to remain sustainable and financially viable taking one year with the next. Can you confirm that colleges must prepare a balanced budget for 2020/21 or if setting a deficit budget must have a risk assessed, deliverable plan in place to clear the deficit within a reasonable timescale?

Yes, colleges must continue to prepare a balanced budget for 2020-21 and/or have a deliverable plan to reach a balanced budget agreed with us.
7. For 2020/21 only, will SFC permit colleges to utilise ring-fenced backlog maintenance funding for other purposes to help enable colleges to achieve a balanced budget and reduce the number of redundancies that might otherwise be required?

*It is reasonable for colleges to choose to use some of their lifecycle maintenance budget for other priority needs, for example ICT/digital needs to support students’ learning in different ways. The high priority capital grant should remain focused on already identified priority works.*

8. If SFC is unable to help colleges recover their losses, it is likely that colleges will have to implement a redundancy programme, with additional redundancies having to be made to meet the cost of the programme. Will SFC be in a position to provide strategic funds to colleges to meet all or part of the costs of redundancy?

*We will continue to work with colleges on their future plans. We have met the costs of many voluntary severance schemes in the past but we will need to have a clearer sense of mitigation strategies in the round, and our budget position, before making further blanket commitments. It is recommended that colleges plan on both possibilities – that SFC could fund VSS needs across the sector; and the impact on the institution if SFC were unable to do this.*